

BAY STATE GAS COMPANY )  
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D.T.E. 01-\_\_\_\_

Bay State Gas Company (“Bay State” or the “Company”) hereby requests authorization from the Department of Telecommunications and Energy (“Department” or “DTE”) to implement a Gas Cost Incentive Mechanism (“GCIM”) for an initial three-year period. As designed, the GCIM would enable Bay State to maximize the value that can be captured for customers from its gas portfolio through industry recognized and proven strategies that utilize a combination of physical and financial contracts. Pursuant to the proposed GCIM, Bay State would modify the recoverability of commodity gas costs presently flowed-through its Cost of Gas Adjustment Clause (“CGAC”). In particular, the results of its gas purchase practices would be benchmarked against standard purchase indices widely relied up on by the gas industry in order to determine the level of costs recoverable from customers. In order to implement the proposed GCIM, the CGAC would also be modified to reflect the transactional costs as well as the gains and losses associated with entering into certain financial contracts that are necessary for Bay State to manage price risks. In support of its request, Bay State states the following:

1. Bay State is a Massachusetts gas company and public utility primarily engaged in supply and transportation of natural gas in the Brockton, Lawrence and Springfield areas. Bay State's principal place of business is 300 Friberg Parkway, Westborough, MA 01581.

2. On November 5, 1998, the Department approved the merger of Bay State with NIPSCO Industries, now operating under the name NiSource, Inc. See, D.T.E. 98-31. In that Order, the Department recognized that the potential for gas cost savings that could result from utilization of various price risk management tools that have developed with the evolution of the natural gas marketplace. Id. at 27.

3. Bay State's proposed GCIM is designed to promote the use of innovative portfolio management techniques with the objective of lowering gas costs. The mechanism relies on appropriate risk-sharing mechanism that rewards the Company when the objective is achieved and penalizes the Company when it is not. Further, the GCIM appropriately mitigates the associated risks to customers, while providing an incentive to Bay State to pursue these opportunities.

4. Bay State's GCIM is modeled on a methodology utilized by its affiliate, Northern Indiana Public Service Company ("NIPSCO"), which has been reviewed and approved by the Indiana Utility Regulatory Commission. Northern Indiana Service Company, Cause No. 40397 (IURC Mar. 25, 1998); Northern Indiana Service Company, Cause No. 40397 (IURC Sept. 11, 1996). Bay State will rely on well-established corporate management controls implemented by NiSource to provide important safeguards for its financial risk management activities.

5. The results of Bay State's GCIM will be measured against publicly-available benchmarks, thereby streamlining the Department's review of Bay State's gas costs compared to

the existing regulatory approach. Additionally, the benchmark data enable the Department to review and verify Bay State's performance under the GCIM.

6. The GCIM would operate in conjunction with the Company's Cost of Gas Adjustment Clause Mechanism ("CGAC"), to establish the level of costs properly recoverable from customers. Bay State seeks authority to reflect certain identified financial transactional costs as well as associated gains and losses as a component of the benefits achieved under the GCIM.

7. Bay State's GCIM is designed to produce benefits to Bay State's customers, in the form of expected gas cost reductions and important protections against gas cost increases.

8. Bay State has submitted prefiled testimony and exhibits, attached hereto, in support of its proposed GCIM. The prefiled testimony explains the GCIM mechanism in detail and establishes its consistency with Department standards for incentive ratemaking. Bay State has also included a redlined version of its existing CGAC tariff, which outlines the proposed changes necessary to accommodate the GCIM.

WHEREFORE, Bay State Gas Company respectfully requests that the Department issue an Order:

1. Approving Bay State's GCIM mechanism, associated changes to the determination of recoverable gas costs and performance measures for implementation through the Company's CGAC for an initial three-year period; and

2. Grant any additional relief that the Department deems appropriate.

Respectfully submitted,

BAY STATE GAS COMPANY

By its attorneys,

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